

TENNESSEE EDUCATION LOTTERY CORPORATION
Funding Board Presentation
May 3, 2006

**UPDATED ESTIMATION OF
TOTAL AND NET PROCEEDS FOR
FISCAL YEARS ENDED JUNE 30, 2006 AND JUNE 30, 2007**

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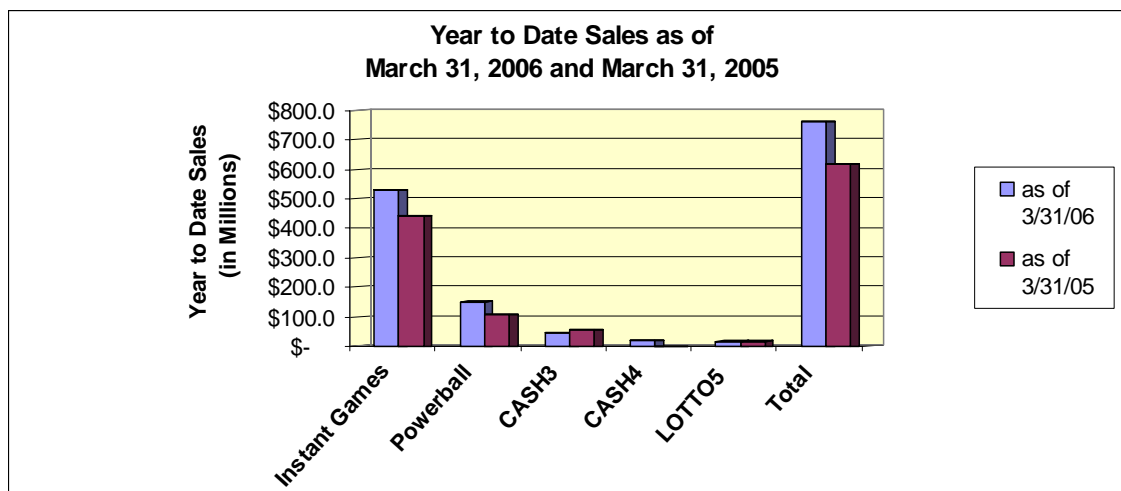
SUMMARY INFORMATION for Fiscal Year 2006:

As of March 31, 2006 (in Millions)

Gross Ticket Sales	\$759.4
Weekly Average	\$ 19.4
Total Proceeds	\$711.1
Return to Education	\$207.4
% of Total Proceeds	29.2 %
Due to After-School Program	\$ 5.7

Retailers 4,450

Gross sales during the first nine months increased year over year compared to last year for all products, with the exception of CASH3. CASH4 was introduced in April 2005. The distribution of sales among the five major products in FY06 compared to FY05 is shown below:



Projected for Fiscal Year Ending June 30, 2006 (in Millions)

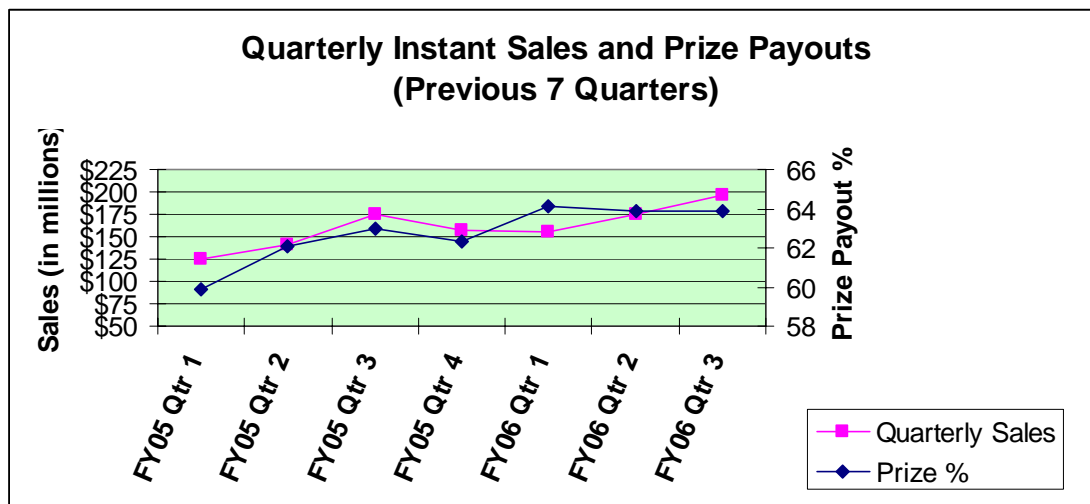
	<u>Low</u>	<u>Mid</u>	<u>High</u>
Gross Ticket Sales	\$974.2	\$989.0	\$1,003.8
Weekly Average	\$ 18.7	\$ 19.0	\$ 19.3
Total Proceeds	\$909.7	\$923.6	\$ 937.5
Return to Education	\$260.1	\$264.1	\$ 268.1
% of Total Proceeds		28.6%	
Due to After-School Program		\$ 7.0	

REVENUES

Instant Games Sales

Instant Sales are projected at \$692.2 million, representing 70% of total gross ticket sales. This would result in an increase over FY05 of \$93.2 million (16%).

A significant factor for the increased revenues is prize payout. The prize payout in FY06 (as of 3/31/06) compared to FY05 increased by an average of 2%, from 62% to 64%. As shown in the chart below, as prize payout increased in FY05, sales also increased. In the fourth quarter of FY05, a decline in the prize payout was followed by a sales decline for the same and next subsequent period.



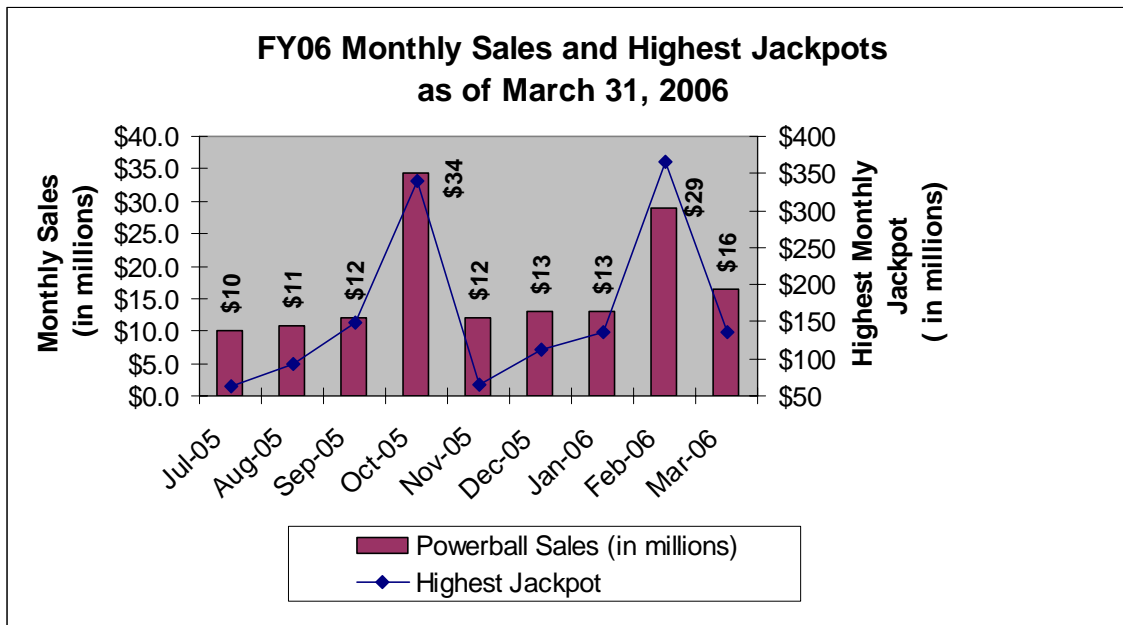
Other factors included the launch of higher price point games supported by the higher price payouts, along with specialty games, such as **\$100,000 Hold'em Poker**.

The average weekly sales for the fiscal year as of April 29, 2006, are \$13.5 million. However, over the last 3 weeks, sales have averaged \$12.8 million. Therefore, we have conservatively estimated the remaining weekly sales in FY06 based on this most recent weekly trend.

Powerball Sales

Powerball sales are projected at \$189.1 million, representing 19% of total sales. Sales are estimated to exceed FY05 by \$42.4 million (29%).

The most significant factor for the increase is the record jackpots experienced in FY06. In October 2005, the jackpot reached \$340 million (a record for Powerball), resulting in total sales during this draw cycle of \$48.1 million. In February 2006, the jackpot reached \$365 million, again setting a new jackpot record. Sales during this draw cycle were \$45.3 million. Other factors impacting sales were the new game matrix in August 2005, and an increase in PowerPlay sales.

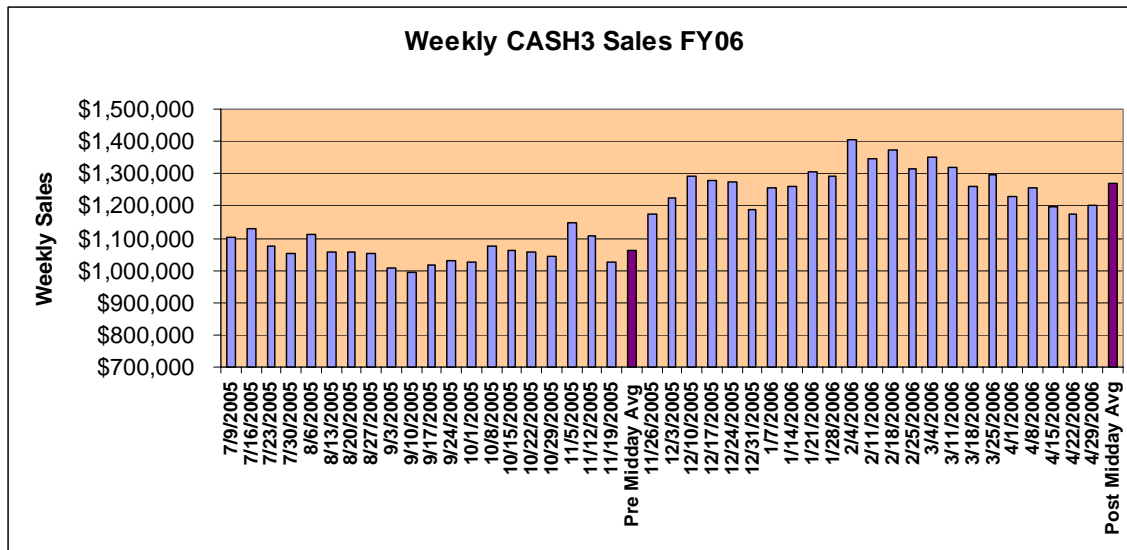


Average weekly sales as of April 29, 2006 are \$ 3.9 million. This average includes the sales resulting from the record jackpots. The normal jackpot cycle for this game, \$97 million, would generate average weekly sales of \$2.7 million based on Tennessee sales during previous comparable jackpot cycles. We have estimated the remaining weekly sales using this expected weekly sales volume.

CASH3 Sales

CASH3 sales are projected at \$61.1 million, representing 6.2% of total sales. This represents an estimated decrease in FY06 compared to FY05 of \$8.1 million.

During the current fiscal year, we re-launched this game, along with CASH4, and added a mid-day drawing in November 2005. Since that time, we have seen a 20% increase in CASH3 weekly sales.

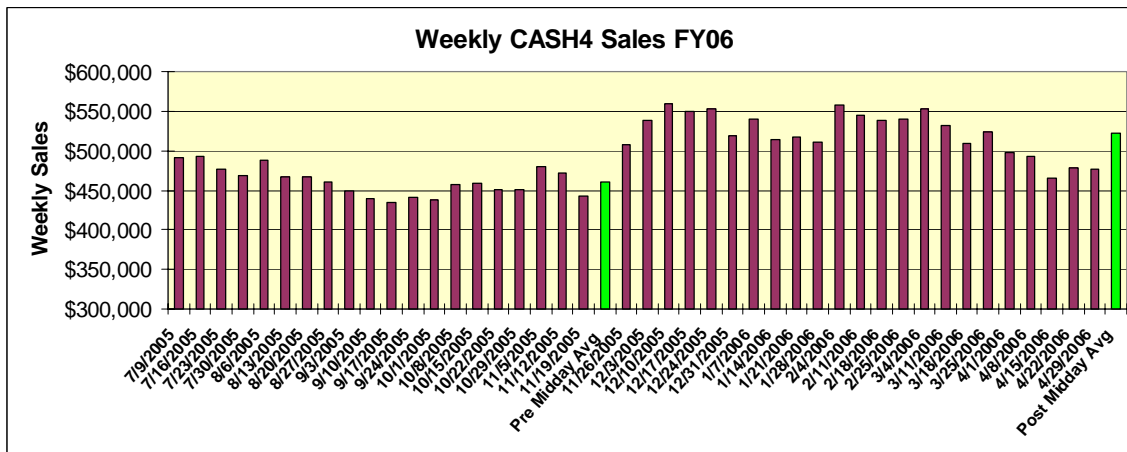


Average weekly sales as of April 29, 2006 are \$1.18 million, and we expect this average to continue for the remainder of the fiscal year.

CASH4 Sales

CASH4 sales are projected at \$25.6 million, representing 2.6% of total sales.

As mentioned above, CASH4 was re-launched, along with CASH3, and a midday drawing added to this game in November 2005. We have experienced a 14% increase in weekly sales for this game since that time.



Average weekly sales as of April 29, 2006 are \$.49 million, and we expect this average to continue for the remainder of the fiscal year.

Lotto 5 Sales

Lotto 5 sales are projected at \$20.9 million, representing 2.1% of total sales. This represents an estimated decrease in FY06 compared to FY05 of \$2.4 million.

The primary factor for this sales decrease is the frequency of jackpot wins in FY06 compared to FY05. In FY06, there were 33 jackpot wins with an average jackpot size of \$.18 million, compared to 20 jackpot wins with an average jackpot size of \$.25 million in FY05.

Average weekly sales as of April 29, 2006 are \$.41 million. We anticipate this average to remain constant the remainder of the fiscal year.

Other Relevant Data

Direct Gaming-Related Expenses

Prize Expense for Instant Tickets for FY06 is projected at 64% gross (current year average), with a net of 62.9% after use of \$6.87 million of Unclaimed Prizes from prior year.

Prize Expense for Online Games is currently at 50% of sales, with the exception for Cash 3 at 51%. We are projecting online prize expense for the fiscal year to remain constant for the remainder of the fiscal year.

Retailer commissions are projected at \$64.3 million and vendor fees at \$20.0 million for FY06. These expenses will increase or decrease in proportion to game sales, and are recorded as a percentage of sales in accordance with statute or contractual agreements.

Non-Direct Expenses

Advertising is projected at \$14.5 million, Other Gaming expenses at \$4.4 million and Operating expenses at \$16.1 million for FY06, totaling \$35 million of Non-Direct Expenses. This represents an increase of \$1.7 million from the prior year.

The projected FY06 expenses are within the approved budget amounts.

Estimate for Fiscal Year Ending June 30, 2007 (in Millions)

	<u>Low</u>	<u>Mid</u>	<u>High</u>
Gross Ticket Sales	\$1,009.8	\$1,030.5	\$1,051.1
Total Proceeds	\$ 940.2	\$ 959.4	\$ 978.6
Return to Education % of Total Proceeds	\$ 261.9	\$ 267.3 28 %	\$ 272.6
Due to After-School Program	\$ 7.3	\$7.4	\$ 7.5

The above ranges represent a 4% projected sales growth and a 1% net proceeds growth compared to FY06. The 10-year industry average for sales and net proceeds is 3.3% and 2.1%, respectively.

Major Factors Impacting FY07 SalesInstant Ticket Sales

We anticipate continued sales growth in the instant ticket product, estimated at 8%. The growth rate for FY06 is expected to exceed FY05 by approximately 15%. This growth was supported in part with a higher price payout percentage. The above estimate assumes the same 64% prize payout expected in FY06.

Powerball Game Sales

The large Powerball jackpots in FY06 exceeded the game's jackpot size expectations, resulting in larger than expected revenues in the current fiscal year.

The game was designed to produce one jackpot exceeding \$210 million in any given year, with the average expected jackpot cycle of \$97 million. Our revenue estimates for Powerball have been adjusted by \$25 million, representing incremental sales in FY06 resulting from the larger than expected jackpots. The resulting impact on Net Proceeds is estimated at \$10 million.

New Online Game

We plan to introduce a new online game product in the second quarter of FY07. We are projecting weekly per capita sales of \$.07, which will generate \$14.5 million in gross sales.

Other Relevant Data**Unclaimed Prizes**

There is proposed legislation to change the TEL statute, requiring the transfer of 100% of unclaimed prize money to the After-School Programs Account, rather than 50% as currently required. We are uncertain as to whether the bill will pass as proposed, or the effective date of the statute change if it is approved and signed into law.

Industry studies suggest that for every \$1 of unclaimed prizes allocated to the prize pool, a lottery will see between \$4.67 and \$5.50 of increased revenues. We have not adjusted the FY07 instant game revenue and proceeds estimates to reflect the potential impact of this proposed legislation.

If the legislation is signed into law and requires the 100% of FY06 unclaimed prizes to be transferred to the After-School Program, the impact to Net Proceeds in FY07 will be a minimum of \$7 million, assuming we maintain the 64% estimated prize payout. The Net Proceeds % return will decrease to 27.1%.

To maintain the estimated Net Proceeds return at 28%, the instant prize payout percentage will be reduced, with an expected reduction in revenue of approximately \$35 million. The resulting impact on Net Proceeds is estimated at \$9 to \$10 million.